Economic Division

Monthly Economic Review

July 2024

आर्थिक कार्य विभाग
DEPARTMENT OF
ECONOMIC AFFAIRS

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Abstract

The Indian economy has sustained its momentum in the first four months of FY25. GST collections in the first four months of FY25 underwent a level shift pushed up by the widening of the tax base and heightened economic activity. The double-digit growth in e-way bill generation reflects sustained economic activity. This is expected to result in higher GST collections in the coming months.

The resilience of domestic activity is also reflected in the strong performance of the manufacturing and services sector purchasing managers' indices. The manufacturing growth has been driven by expansion in demand conditions, a rise in new export orders and growth in output prices. RBI's Order Books, Inventories, and Capacity Utilisation Survey (OBICUS) highlights expansion in capacity utilisation in the manufacturing sector. Expansion in sales and increase in new order uptakes have led to the robust performance of the services sector. The contact-intensive services sector has been a major performer driven by an upswing in the tourism and hotel industry. Going forward, the measures announced in the Union Budget FY25 for the MSMEs, manufacturing and services sectors are expected to give a big boost to the sectors.

On the fiscal front, the Union Budget FY25 has laid out a glide path of fiscal consolidation. Supported by strong revenue collection, discipline in revenue expenditure, and robust economic performance, the fiscal deficit is projected to decline. At the same time, capital expenditure is maintained at high levels, supporting the fledgling private investment cycle.

As far as the external sector is concerned, there is evidence of trend reversal in FY25, with merchandise exports and imports surpassing their previous year's level. Recovery in global demand across India's major exporting partners has given a boost to exports, while a strong domestic demand has encouraged imports. A greater increase in imports compared to exports has resulted in a widening of the merchandise trade deficit. Services exports have been on a rising trajectory, resulting in a rise in net services receipts.

With respect to capital flows, Foreign Portfolio Investors (FPIs) reversed their trend from June 2024 onwards, becoming net buyers. Net Foreign Direct Investment (FDI) inflows also increased in the first three months of FY25 due to a rise in gross inflows. Supported by robust capital flows, foreign exchange reserves reached a historical high of USD 675 billion as of 2 August 2024, sufficient to cover 11.6 months of imports.

Retail inflation decreased to 3.5 per cent in July 2024, the lowest since September 2019, driven by moderation in food inflation. The steady progress in the southwest monsoon has supported kharif sowing. Replenishing water levels in reservoirs bodes well for the current Kharif and upcoming rabi crop production. This will further aid in reducing food inflation in the coming months.

The labour market indicators exhibited positive signs in recent months, barring two perception surveys by RBI showing weakening sentiments. The quarterly urban unemployment rate remained stable at 6.6 per cent in Q1 FY25 vis-à-vis Q1 FY24. Year-on-year growth in net EPFO payroll additions in Q1 FY25 was followed by expansionary tendencies in the PMI employment sub-indices in July. The Naukri Jobspeak index is finally looking up. However, the RBI surveys paint a sobering picture of urban consumers' perception of employment conditions and manufacturers' hiring sentiments, both of which underwent a dip in recent rounds. Nonetheless, the balance of evidence indicates continued economic expansion and investment, with employment generation following closely.

On balance, India's economic momentum remains intact. Despite a somewhat erratic monsoon, reservoirs have been replenished. Manufacturing and services sectors are expanding, according to the Purchasing Managers' indices. Tax collections, especially indirect taxes, which reflect transactions, are growing healthily, and so is bank credit. Inflation is moderating, and exports of both goods and services are doing better than they did last year. Stock markets are holding on to their levels. Foreign direct investment is looking up as gross inflows are rising. As of now, the projection of real GDP growth of 6.5-7.0 per cent for FY25, made in the Economic Survey for 2023-24, seems appropriate.

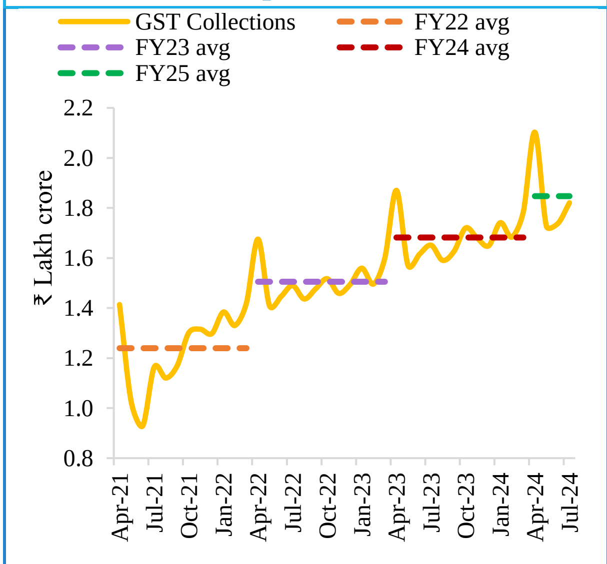
India's Economic Resurgence: Catalysing Growth and Confidence

1. The Indian economy experienced a notable upswing across various economic indicators in July 2024, signalling strong and resilient business activity. The month saw impressive milestones being reached, substantial growth in GST collections, and a significant rise in e-way bill generation, which point to an overall increase in economic activity. The stock market indices also reached record highs in July.

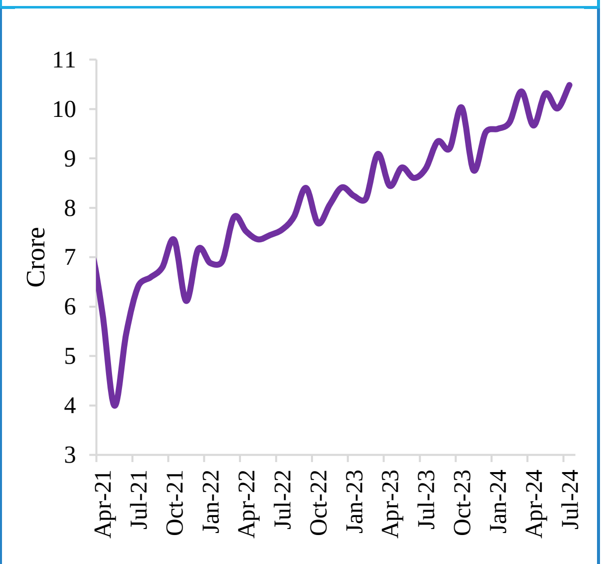
2. Gross GST collections for July 2024 maintained their momentum, achieving their second-highest level since May 2023. The total gross GST revenue rose by 10.3 per cent year-on-year (YoY), bringing the total for FY24 (April to July) to ₹7.4 lakh crore. Specifically, gross domestic revenue increased by 8.9 per cent, while gross import revenue grew by 14.2 per cent. This increase in GST collections also highlights robust compliance and expansion of GST coverage across various economic activities. The rise in gross GST collection in FY25 is also accompanied by a level shift over the years on the back of heightened economic activity and a widening tax base. The upward level shift is reflected in the average GST collections rising from ₹1.68 lakh crore in FY24 to ₹1.85 lakh crore in FY25.

3. In July 2024, e-way bill generation signalled a rise in economic activity. The YoY increase in e-way bills reached a nine-month peak of 19.2 per cent. The total number of e-way bills issued that month surged to 10.5 crore, setting a new single-month record. Additionally, there was a month-on-month (MoM) rise of 4.7 per cent in e-way bill generation. During FY24 (April-July), it grew by over 16.8 per cent compared to the same period last year. This ongoing growth reflects sustained economic activity and industry engagement, which is expected to result in higher GST collections in the coming months.

GST Collections Show Progressive Step-Up Trend



Sustained Uptrend in E-Way Bill Generation Volumes



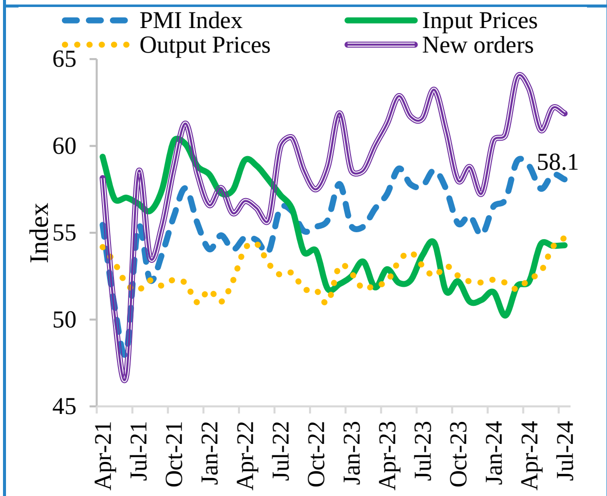
Source: GSTN, Ministry of Finance

4. The Indian stock market witnessed another bullish run as both the Nifty 50 and BSE Sensex 30 indices soared to new heights. In July 2024, the Nifty 50 opened with a record high of 23993 on 1st July 2024, ultimately surging to an all-time peak of 24999.8 on 29th July 2024. Similarly, the BSE Sensex commenced trading with a high of 79043.4, reaching an unprecedented high of 81908.4 on 29th July 2024.

The manufacturing sector continues to perform well

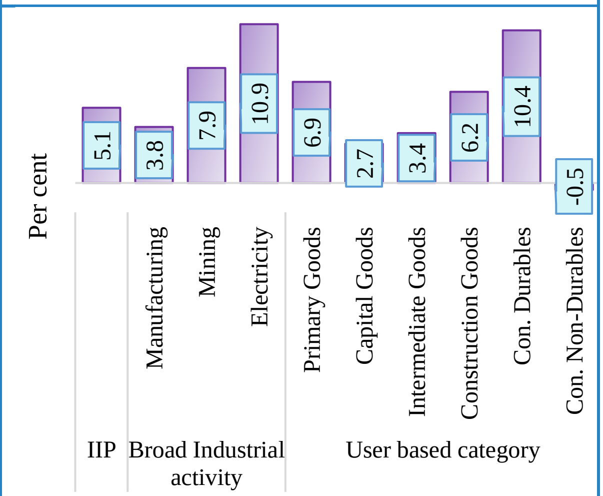
6. The manufacturing sector has continued to demonstrate robust performance in the first four months of FY25, as evidenced by the strong performance of various high-frequency indicators. The Purchasing Managers' Index (PMI) Manufacturing, a crucial gauge of the economic vitality of the manufacturing sector, stood at 58.1 in July 2024, significantly above the series long-run average and among the highest recorded in recent years. This expansion, driven by buoyant demand conditions and a surge in production volumes, bodes well for the overall health of the economy. However, the input cost inflation in the manufacturing sector was at its highest levels in July 2024, in nearly two years, driven by a rise in coal, leather, packaging, paper, rubber and steel prices. An increase in demand conditions and a rise in input cost prices promoted manufacturers to raise output prices, which increased to its 11-year high in July 2024.

PMI manufacturing in an expansionary zone



Source: HSBC Purchasing Managers' Index, S&P

Growth in IIP and its sub-components in Q1 of 2024



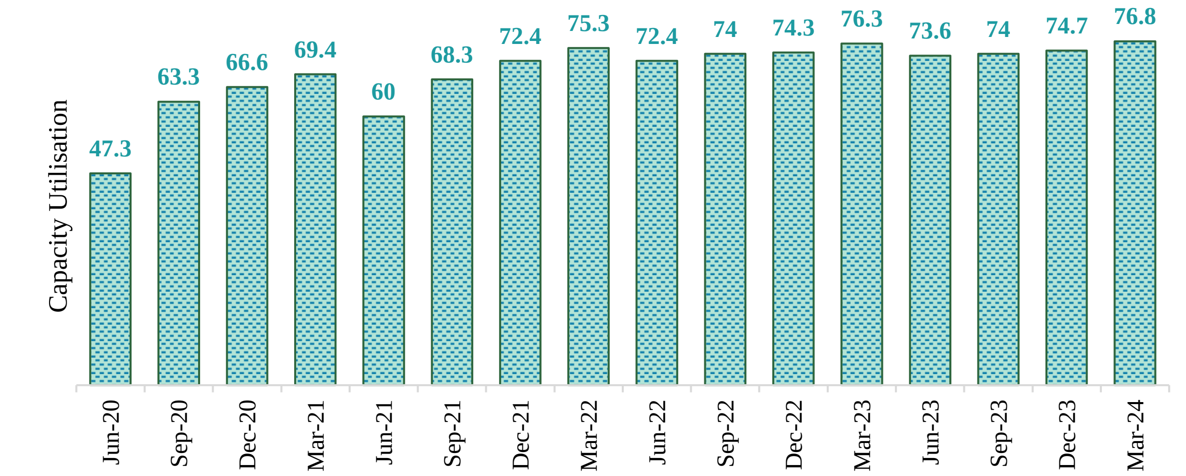
Source: MoSPI

7. The Index of Industrial Production (IIP) registered a YoY growth of 5.2 per cent in Q1 of FY25, compared to 4.7 per cent in Q1 of the previous year, with the most robust growth seen in the production of primary goods, intermediate goods and consumer durables. However, the increase in the index of eight core industries was 5.7 per cent on a YoY basis in Q1 of FY25.

8. The RBI Order Books, Inventories and Capacity Utilisation survey of August 2024 highlights an expansion in the capacity utilisation (CU) in the manufacturing sector to 76.8 per

cent in Q4 of FY24 from 74.7 per cent in the previous quarter. The seasonally adjusted CU remained stable at 74.6 per cent in Q4 of FY24. However, as per the RBI Industrial Outlook Survey of August 2024, overall business sentiment in the manufacturing sector moderated in Q1 of FY25, as seen in a fall in the Business Assessment Index to 110.8 in Q1 of FY25 from 114.2 in the previous quarter. This fall can be explained by an increase in input costs and salary outgo, as well as a moderation in profit margins. Manufacturers' optimism was reflected in their perception of an expansion in demand conditions and overall business expectations during Q3 and Q4 of FY25.

Improvement in capacity utilisation in the manufacturing sector (per cent)



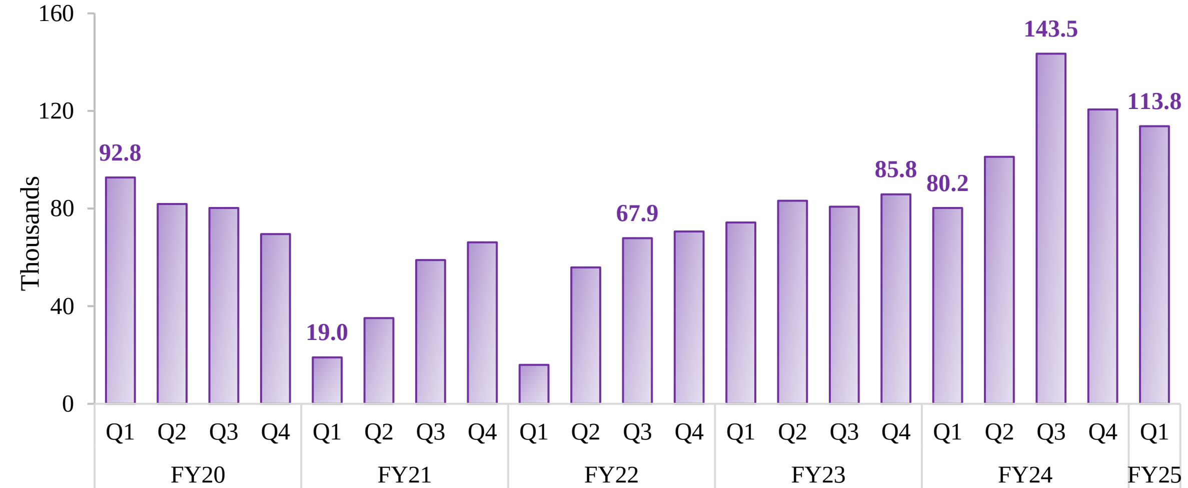
Source: RBI OBICUS

Housing demand strengthens

9. The increase in steel consumption and cement production is substantially induced by continuously strengthening housing demand as housing sales increased in Q1 of FY25 over the corresponding period of the previous year. As per the data released by Prop Tiger[1], though housing sales in 8 major cities moderated on a sequential basis in Q1 of FY24, they registered a YoY growth of 41.8 per cent, reflecting positive consumer sentiments about real estate investments on the back of strong macroeconomic fundamentals.

[1] Prop Tiger is an Indian real estate advisory firm that also gathers data on housing sales and launches across the country's top 8 cities-Ahmedabad, Bangalore, Delhi, Chennai, Hyderabad, Kolkata, Mumbai and Pune

Rise in housing sales indicating positive consumer sentiments (thousand)



Source: Prop Tiger

Budget measures to give a boost to the manufacturing sector

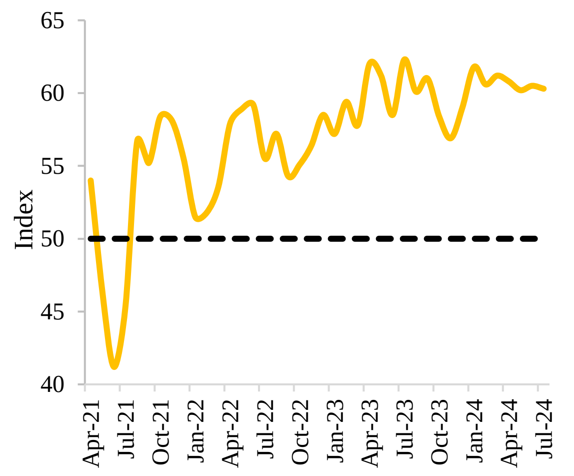
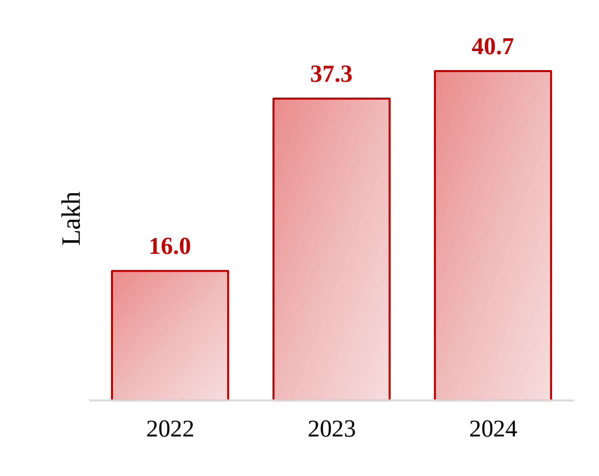
10. The Union Budget FY25 has announced a slew of measures to boost MSMEs and manufacturing, particularly labour-intensive manufacturing. These are mentioned below: -

Budget measures to boost the MSME sector

- **A credit guarantee scheme for MSMEs in the manufacturing sector**
- **The announcement of a new mechanism for facilitating the continuation of bank credit to MSMEs during their stress period**
- **Enhancement in the limit of Mudra loans to ₹20 lakh from the present ₹10 lakh for entrepreneurs who have availed and successfully repaid previous loans under the 'Tarun' category**
- **Setting up of e-commerce export hubs to enable MSMEs to sell their products in international markets**
- **Provision of financial support for setting up multi-product food irradiation units, food quality and safety testing labs in the MSME sector**
- **Opening up of new branches by Small Industrial Development Bank of India (SIDBI) to expand its reach to all major MSME clusters**
- **Reduction in the turnover threshold of buyers for mandatory on-boarding on the Trade Receivables electronic Discounting System (TReDS) platform from ₹500 crore to ₹250 crore**

Robust performance of the services sector

11. Similar to the manufacturing sector, the services sector continued to perform well. PMI services remained in an expansionary zone at 60.3 in July 2024, driven by expansion in international sales, an increase in new order uptakes, and a rise in new export orders. Despite a rise in wage and material costs which pushed up the business expenses, overall sentiment in the services sector remains upbeat, driven, among others, by an upswing in the tourism cum hotel industry induced by leisure travel, business travel, and social events. As per the RBI Services and Infrastructure Outlook Survey, respondents remain optimistic about the overall business situation, turnover, and employment conditions in Q1 of FY25, coupled with the expectation of easing pressures from wage bills, input costs and cost of finance.

PMI services remained in an expansionary zone	**Rise in foreign tourist arrivals during first five months of 2024**
	
Source: HSBC Purchasing Managers' Index, S&P	Source: Ministry of Tourism

12. The contact-intensive sectors have been the major growth drivers of the services sector. The tourism sector performed well, with cumulative Foreign Tourist Arrivals (FTAs) during January-May 2024 at 40.7 lakh, up from 37.3 lakh in the corresponding period of the previous year. During the same time period, foreign exchange earnings (FEEs) totalled ₹1.1 lakh crore, significantly higher than the ₹0.9 lakh crore recorded in the same timeframe in 2023, indicating an impressive growth of 22.5 per cent. These trends underscore the positive impact on the overall economic growth and development of India's tourism sector. The robust growth of the tourism sector has boosted the travel industry, with domestic and international air passengers handled during Q1 of FY24 being 5.6 per cent and 15.9 per cent higher than that in the corresponding period of the previous year. According to the latest UNWTO World Tourism Barometer[2], international tourism reached 97 per cent of its pre-pandemic levels during the January-March quarter of 2024, fuelling economic growth and employment around the World.

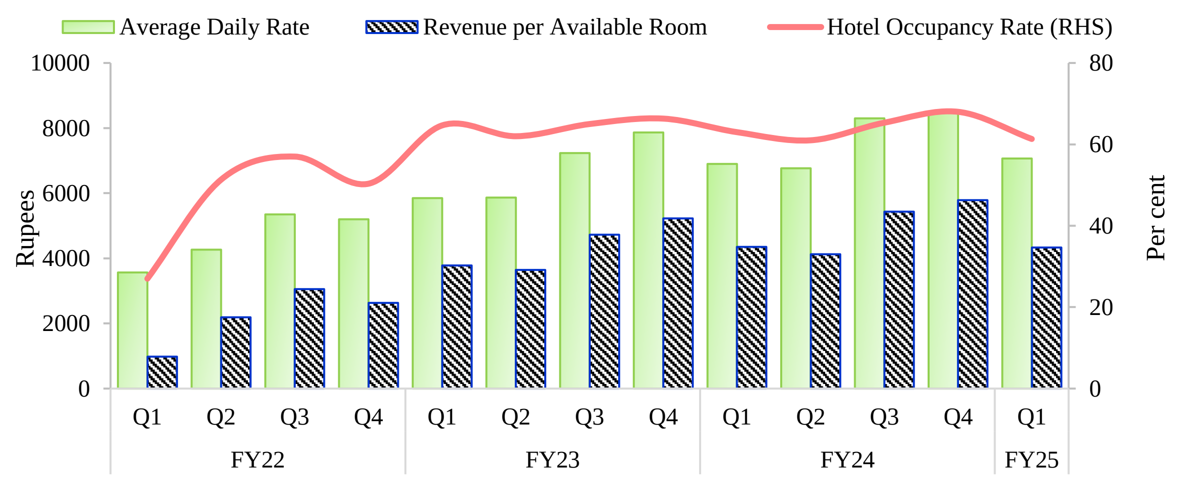
[2]https://tinyurl.com/56xebj5z

The rise in international tourism has played a major role in spurring international air passengers in India.

13. The World Travel and Tourism Council's report for 2023[3] highlights that India's travel and tourism sector has completely recovered from the pre-pandemic level, with the sector's contribution to India's GDP at ₹19.3 lakh crore in 2023, a nearly 10 per cent increase pre-pandemic level. The report states that domestic tourism spending in 2023 was ₹14.6 lakh crore, 15 per cent higher than the pre-pandemic levels. India is projected to become the fourth-largest domestic travel market in terms of spending by 2030, which is likely to give a further boost to the tourism and hospitality sectors.[4]

14. The growth in the hospitality sector has been driven by rising domestic leisure travel, an increase in MICE (Meetings, Incentives, Conferences, Exhibitions), as well as wedding and social events. The nationwide hotel occupancy rate surpassed the pre-pandemic level (66.2 per cent in FY20) in FY23 and FY24. However, it moderated in the previous quarter, declining from 63 per cent in Q1 of FY24 to 61.3 per cent in Q1 of FY25. This is due to the prevalence of high temperatures, fewer weddings and elections and the absence of major events like the G20 summit and ICC World Cup which gave a boost to the hospitality sector in the past two years. As per the Anarock data, average room rates were 2-3 per cent higher in Q1 of FY25 than that in Q1 of FY24.

Moderation in hotel occupancy rate



Source: Anarock

15. The Union Budget FY25 has announced certain measures for the promotion of the manufacturing and services sector. These are discussed below: -

[3]https://tinyurl.com/m256urs6
[4] https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-the-future-of-travel

Budget measures for the promotion of the manufacturing and services sectors

Manufacturing sector

- Government to launch a comprehensive scheme for providing internship opportunities in 500 top companies to 1 crore youth in 5 years
- Government will facilitate development of investment-ready industrial parks
- Government to provide rental housing with dormitory type accomodation for industrial workers
- Ownership, leasing and flagging reforms to be implemented to improve the share of the Indian shipping industry and generate more employment

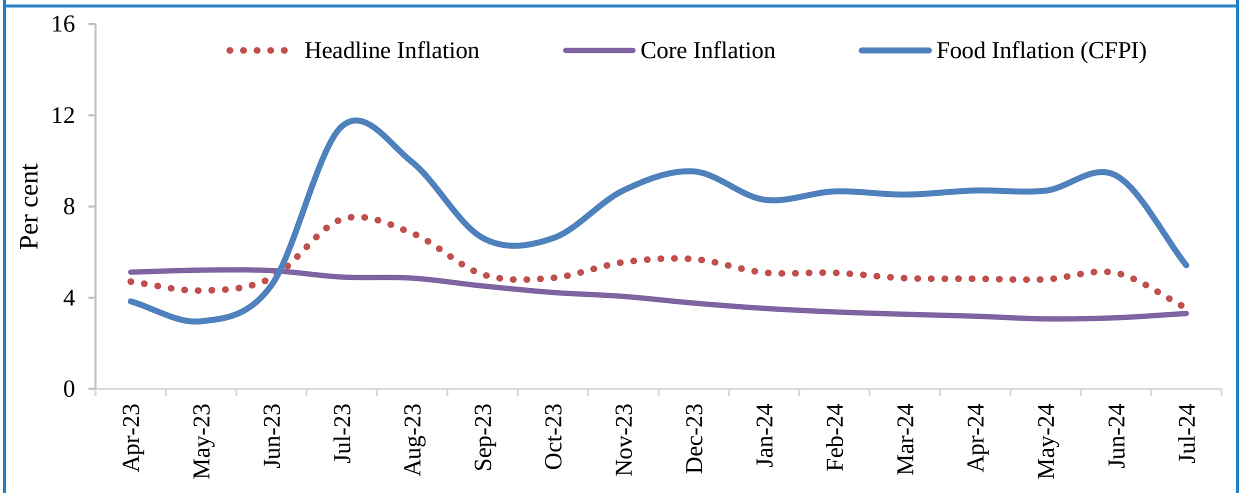
Non-financial Services sector

- Development of Digital Public Infrastructure applications for productivity gains, business opportunities, and innovation by the private sector
- Integrated Technology Platform will be set up for improving the outcomes under the Insolvency and Bankruptcy Code (IBC)
- Extension of the services of the Centre for Processing Accelerated Corporate Exit (C-PACE) for voluntary closure of Limited Liability Partnerships

Inflationary pressures eased in July 2024

16. Retail inflation based on Consumer Price Index-Combined (CPI-C) eased from 5.1 per cent in June 2024 to 3.5 per cent in July 2024, the lowest since September 2019. This was mainly due to a significant fall in food inflation. It declined to 5.4 per cent in July 2024 from 9.4 per cent in June 2024. The substantial fall witnessed in food inflation was helped majorly by a decline in vegetable inflation from 29.3 per cent in June 2024 to 6.8 per cent in July 2024 and mild deflation in ‘oils and fats’ and spices.

Softened inflationary pressures driven by fall in food inflation in July 2024



Source: Consumer Price Indices, CSO, MoSPI

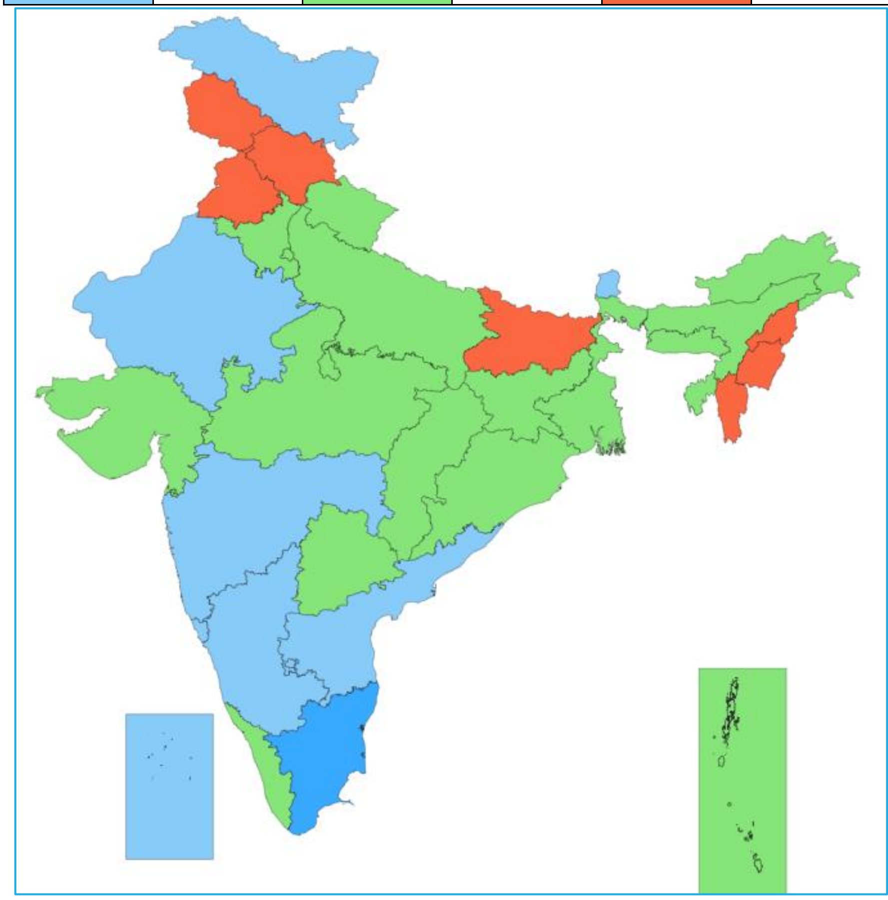
17. On the other hand, core inflation (non-food, non-fuel) was at a moderate level of 3.3 per cent in July 2024. Overall, the retail inflation rate moderated to 4.6 per cent in the first four months of FY25 as compared to 5.3 per cent in FY24 (April-July).

Steady progress in monsoon support Kharif sowing

18. A steady progress in the southwest monsoon has supported agricultural activity. The cumulative southwest monsoon rainfall was 3 per cent higher than the long-period average up to 19 August 2024. Further, the spatial distribution has improved, with 84 per cent of sub-divisions receiving normal or excess rainfall. This has enabled healthy Kharif sowing. As of 16 August 2024, the actual sowing area under total foodgrains was 4.8 per cent higher than the corresponding period of the previous year, while progress in cereals and pulses was 4.6 per cent and 5.7 per cent higher than the previous year.

Healthy Progress in Spatial Distribution of Monsoon as of 19 August 2024

	Excess		Normal		Deficient

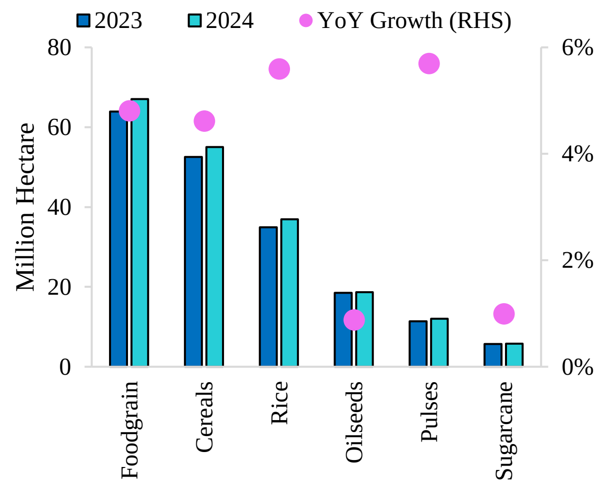
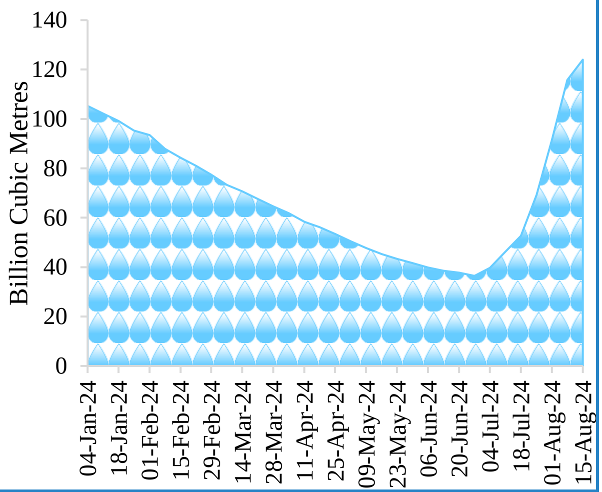


Source: IMD

Improving reservoir storage augurs well for agricultural output

19. Corresponding to healthy progress in monsoon, availability of water level in reservoirs improving, ensuring water adequacy for irrigation during current Kharif and upcoming rabi crop production. The storage availability in 150 reservoirs as of 15 August 2024 was 111 per cent of the corresponding period of last year and 114 per cent of the average storage of the last

ten years, according to the Central Water Commission. This augurs well for healthy food production that will aid in cooling food inflation in the upcoming months. Further, to enhance productivity and resilience in the agriculture sector, various measures have been announced in the Union Budget FY25.

Healthy Kharif Sowing (16th Aug)	Rising Reservoir Level
	
Source: Ministry of Agriculture & Farmers Welfare	Source: Reservoir Bulletin, Central Water Commission

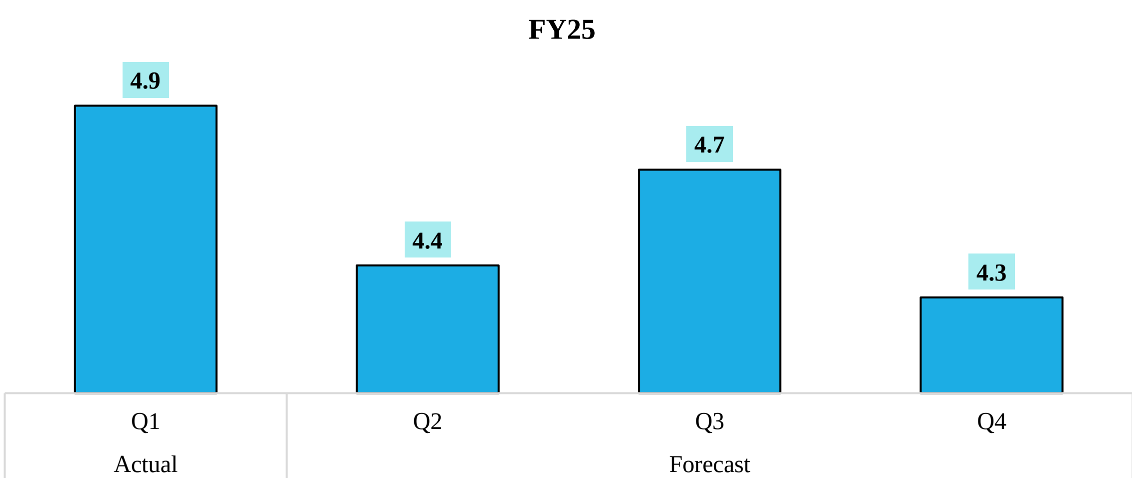
Budget Measures to enhance productivity and resilience in agriculture

Transforming agriculture research	• A comprehensive review of the agriculture research set-up to bring the focus on raising productivity.
Release of new varieties	• **New 109 high-yielding and climate-resilient** varieties of **32 field and horticulture crops** will be released for cultivation by farmers.
Natural Farming	• Initate one crore farmers into natural farming supported by certification and branding in the next 2 years • Establishment of **10,000 bio-input resource** centres.
Missions for pulses and oilseeds	• Strengthen production, storage and marketing of pulses and oilseeds • Strategy to achieve *'atmanirbharta'* for oil seeds such as mustard, groundnut, sesame, soybean, and sunflower.
Vegetable production & Supply Chains	• Development of large-scale clusters for vegetable production closer to consumption centres. • Promotion of Farmer-Producer Organizations, cooperatives and start-ups for vegetable supply chains
Digital Public Infrastructure for Agriculture	• Implementation of the **Digital Public Infrastructure** in agriculture for coverage of farmers and their lands in 3 years.

Positive inflation outlook

20. With moderate core inflation and positive progress in monsoon, the headline inflation outlook is positive. Assuming a normal monsoon, CPI inflation for FY25 is projected at 4.5 per cent by the RBI, with Q2 inflation at 4.4 per cent. In its August 2024 meeting, the Monetary Policy Committee of the Reserve Bank of India decided to keep the policy repo rate unchanged at 6.5 per cent, reiterating the need to continue with the disinflationary stance of withdrawal of accommodation, initiated first in April 2022, to ensure that inflation progressively aligns with the target while supporting growth.

RBI's Inflation forecast for FY25



Source: Households' Inflation Expectations Survey, RBI

Union Budget FY25 prioritises fiscal prudence

21. The Union Budget FY25 continued along the path of fiscal consolidation. Aided by buoyant revenue generation, restrained revenue expenditure growth and healthy economic activity, the fiscal deficit is estimated to decline further from 5.6 per cent of GDP in FY24 (provisional actuals) to 4.9 per cent in FY25. The commitment to fiscal discipline will not only help keep bond yields in check but will translate to lower economy-wide borrowing costs.

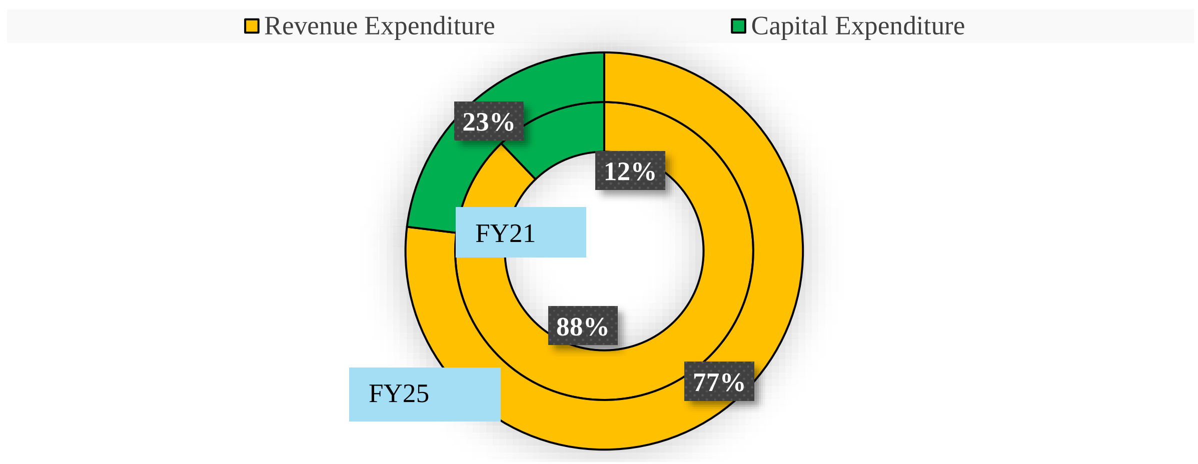
22. Gross tax revenue is estimated to increase by 10.8 per cent in FY25, driven by increases of 12 per cent and 14 per cent in corporate income tax and taxes on income other than corporate tax, respectively. Compliance gains and resilient economic activity are estimated to spur the growth of the Central Goods and Services Tax (CGST) by 11 per cent in FY25. After accounting for transfers to state governments and the NDRF, the net tax revenue of the Union Government is budgeted to increase by 10.9 per cent YoY. Additionally, the 56.8 per cent increase in non-tax revenue will provide adequate fiscal headroom to achieve the deficit target.

23. The quality of government expenditure continues to improve. Capital expenditure is budgeted to increase by 17.1 per cent to ₹11.1 lakh crore. This amounts to 3.4 per cent of GDP

in FY25. Additionally, a larger proportion of fiscal deficit is now accounted for by capital outlays, indicating an increasingly investment-oriented deficit financing. The decline in commodity prices has facilitated the lowering of the budgeted allocation for subsidies on fertiliser and fuel. This has contributed to restraining the growth in revenue expenditure, which is estimated to increase by 6.2 per cent YoY.

24. The improvement in the fiscal deficit will ensure that Union Government debt as a per cent of GDP continues on its declining trajectory. The total outstanding liabilities of the Union Government is budgeted to decline from 57.1 per cent of GDP in FY24 (Revised Estimates) to 55.7 per cent in FY25. In reiterating its commitment to fiscal prudence, the Union Budget FY25 has announced that the fiscal deficit will be managed in a manner that ensures that Union Government debt will be on a declining path as per cent of GDP.

Raising share of capital expenditure in total expenditure



Source: Various Union Budget documents

Fiscal developments in April – June 2024

25. The first quarter of FY25 saw healthy revenue generation through direct and indirect taxes. Corporate income tax and personal income tax together grew by 39.9 per cent YoY as of the end of June 2024. Trends in GST collections are detailed in para 2 above. Gross GST collections increased by 10.2 per cent YoY in the period April – July 2024 on the back of steadily growing economic activity.

26. Total expenditure and capital expenditure are lower by 7.7 per cent and 35 per cent YoY, respectively, in April – June 2024. However, it is important to note that interpreting a YoY comparison of government spending will be inappropriate in Q1 FY25 on account of its being a part of the period of the general election. Capital expenditure and total expenditure are expected to pick up in the remainder of the year.

Global trade trends turned positive in the first quarter of 2024

27. As per the United Nations Conference on Trade and Development (UNCTAD) latest global trade update[5], global trade trends turned positive in Q1 of 2024, with trade in goods increasing by around 1 per cent quarter over quarter (QoQ) while services trade grew at approximately 1.5 per cent QoQ. The upward trend has been fuelled by positive trade dynamics for the US and developing countries, particularly the strong export performance of the largest Asian developing economies.

28. UNCTAD anticipates a more significant positive trend in the second quarter of 2024, expecting a 2 per cent increase in the first half of the year. The overall outlook is positive due to a slowdown in global inflation and an improvement in economic growth forecasts, marking a turnaround from the negative macroeconomic trends seen in most of 2023. Additionally, rising demand for products related to energy transition and artificial intelligence is expected to contribute to trade growth in 2024. Furthermore, the potential for interest rate cuts in the US later in the year and the consequently weaker US dollar could give global trade a significant boost, providing a ray of optimism for the future of global trade. However, the future of global trade in 2024 is still at risk due to ongoing geopolitical tensions, rising costs of shipping, and the emergence of new industrial policies, as noted by UNCTAD.

Global trade in goods and services picked up in 2024

Source: UNCTADstat; UNCTAD calculations based on national statistics

Note: Quarterly growth is the quarter-over-quarter growth rate of seasonally adjusted values. The annual growth is calculated using a trade-weighted moving average over the past four quarters. Figures for Q1 2024 are estimates. Q2 2024 is a nowcast as of 11 June 2024

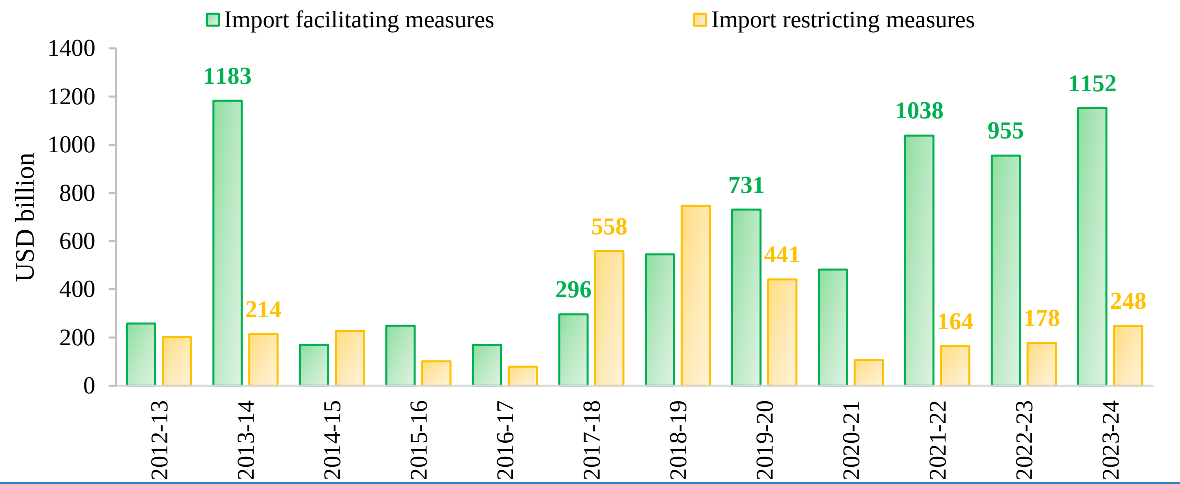
29. The WTO's latest trade monitoring update[6] has also projected world trade to pick up gradually during 2024 and 2025, with the volume of world merchandise trade projected to increase by 2.6 per cent and 3.3 per cent in 2024 and 2025, respectively. Based on the WTO stats data, the world merchandise export volume grew by 2.8 per cent (seasonally adjusted-

[5] https://unctad.org/system/files/official-document/ditcinf2024d2.pdf

[6] https://www.wto.org/english/news_e/news24_e/tmwto_08jul24_e.pdf

quarterly (2005Q1=100)) on a YoY basis in Q1 of 2024, and world merchandise import volume grew sequentially despite recording a contraction of 0.06 per cent (seasonally adjusted-quarterly (2005Q1=100)) on a YoY basis. Over the past year, the coverage of trade-facilitating measures[7] has increased faster (from USD 955 billion in 2022-23 to USD 1152 billion in 2023-24) than that of import-restricting measures[8] (from USD 178 billion in 2022-23 to USD 248 billion in 2023-24) as per the WTO. This change has persisted through 2024, which is expected to support a rebound in global trade.

Trade coverage of new import-facilitating and import-restricting measures



Source: WTO
Note: Data from 2012-13 to 2022-23 pertains to mid-October to mid-October, and data for 2023-24 pertains to mid-October to mid-May

The impact of the reversal of global trade trends is visible in India as well

30. Driven by a recovery in global demand, especially across India's major exporting partners and a slowdown in inflationary pressures, India's merchandise exports grew by 4.1 per cent in the first four months of FY25. Non-petroleum & non-gems & jewellery exports also remained robust, growing by 6.1 per cent in the first four months of FY25. Engineering goods, petroleum products, electronic goods, drugs & pharmaceuticals and organic & inorganic chemicals accounted for around 65 per cent of the merchandise exports in the first four months of FY25. Netherlands, USA, UAE, Malaysia and Singapore emerged as major export destinations.

31. Owing to a rise in domestic demand and a positive base effect, merchandise imports also showed remarkable performance, growing by 7.6 per cent in the first four months of FY25. Petroleum products, electronic goods, machinery & electrical, gold and coke, coal & briquettes accounted for around 60 per cent of merchandise imports in the first four months of FY25.

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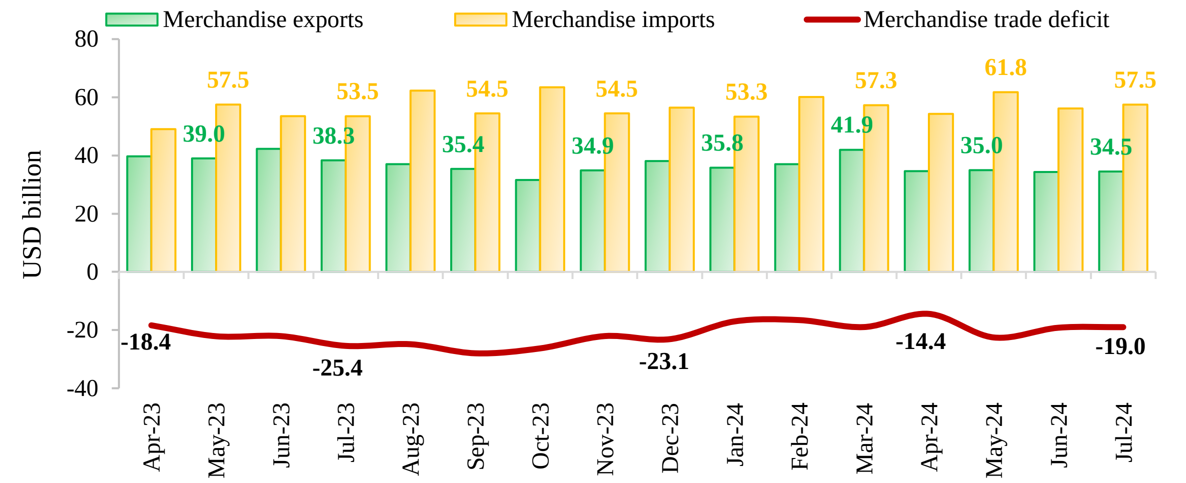
[7] As per the WTO, trade facilitation measures refer to the measures taken for simplification, modernization and harmonization of export and import processes
[8] The WTO defines import restrictions as temporary measures that can be taken to limit the import of certain products

UAE, Russia, China, Iraq and Indonesia emerged as major importing partners. Due to a larger increase in imports than exports, the merchandise trade deficit widened from USD 75.2 billion in April-July 2023 to USD 85.6 billion during the corresponding period of FY25.

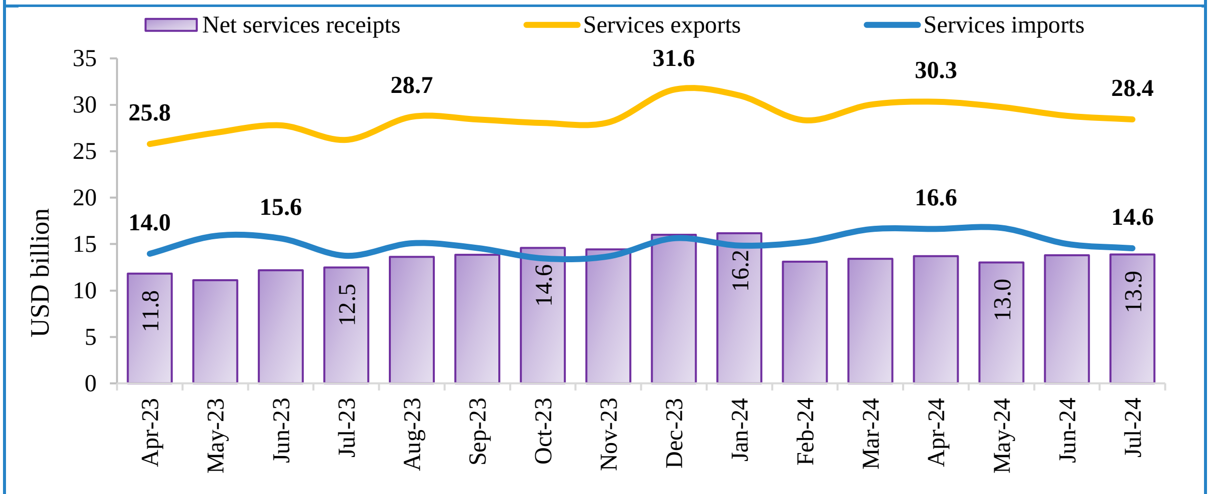
32. India's services exports grew by 9.9 per cent in the first four months of FY25 (April 2024 to July 2024), leading to a rise in net services receipts from USD 47.6 billion in the first four months of FY24 to USD 54.4 billion in the same period of FY25.

Merchandise trade deficit widened during the first four months of FY25



Source: DGCIS, M/o Commerce

Improvement in net services receipts in first four months of FY25



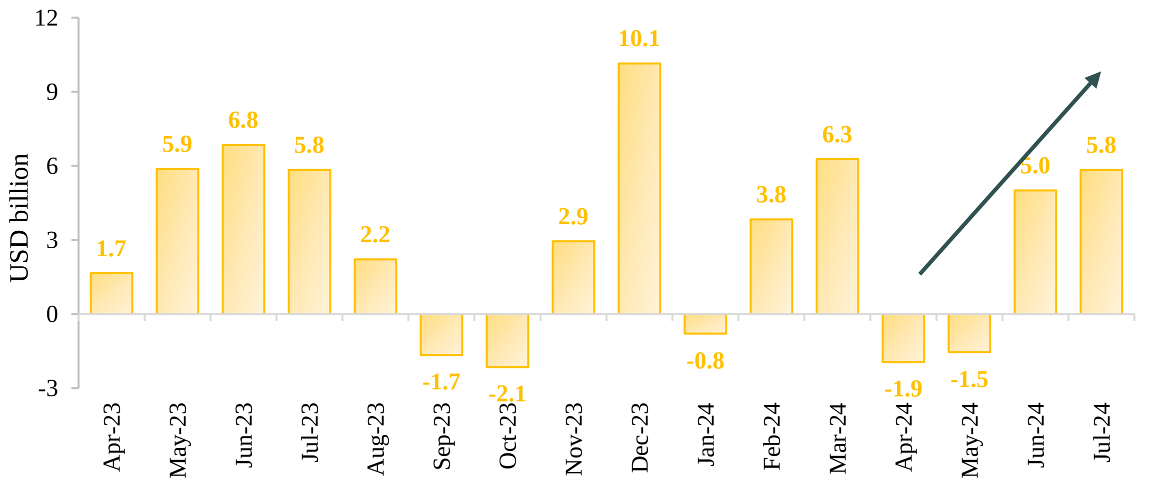
Source: RBI

Rise in capital flows

33. Supported by India's strong macroeconomic fundamentals, high economic growth and positive investor sentiments, Foreign Portfolio Investors (FPIs) turned net buyers in Indian financial markets, with net inflows amounting to USD 10.8 billion in June and July 2024 after witnessing outflows in the first two months of FY25. The equity component also witnessed a trend reversal with a net equity FPI of USD 7.1 billion. Capital goods, telecommunications,

and consumer services sectors attracted the highest FPI equity inflows during April- July 2024 (as per the NSDL data).

Foreign portfolio investors became net buyers from June 2024 onwards



Source: NSDL

34. The debt segment is still attracting FPI inflows. It is estimated to garner around USD 20-40 billion within 18-21 months following the incorporation of Indian Government Bonds into JP Morgan's Emerging Markets global bond index, which started on 28 June 2024.[9] There's a positive outlook for investments from FPIs in debt due to India's inclusion in other global indices.[10]

35. Foreign direct investment (FDI) flows picked up in FY25 as net FDI inflows[11] increased by 42.7 per cent during the Q1 of FY25. The increase in net FDI inflows is largely due to a rise in gross FDI inflows. Gross FDI inflows increased from USD 17.8 billion during April-June 2024 to USD 22.5 billion in the first three months of FY25.

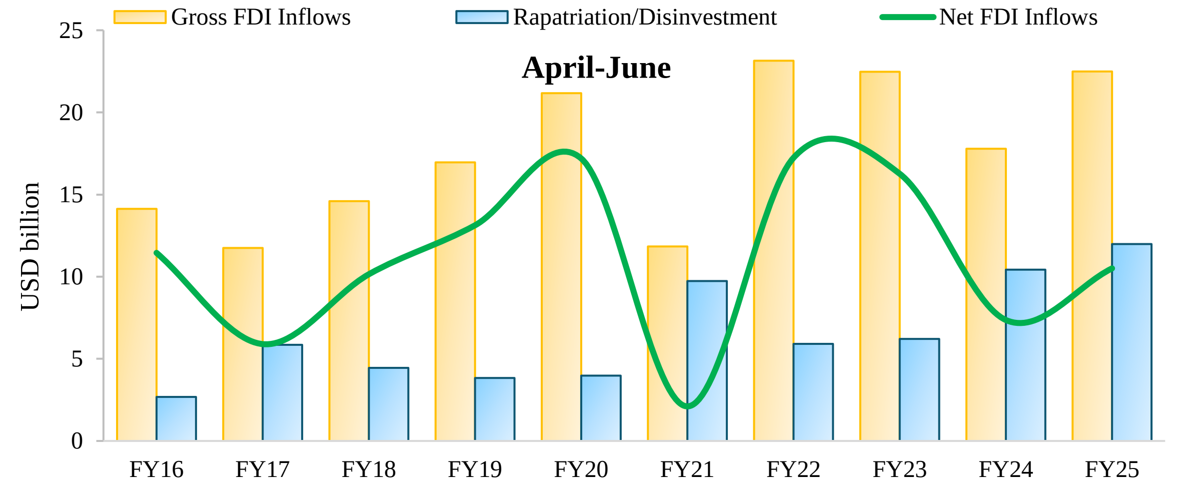
36. External commercial borrowings moderated to USD 1.8 billion during April-June of FY25 compared to an inflow of USD 5.7 billion a year ago. Non-resident deposits recorded higher net inflows of USD 2.7 billion during April-May of FY25 compared to USD 0.6 billion in the previous year. Supported by robust capital inflows, India's foreign exchange reserves reached a historical high of USD 675 billion as of 2 August 2024, sufficient to cover 11.6 months of imports and 101.7 per cent of external debt as of March 2024. Overall, India's external sector is expected to remain resilient, as can be gauged from the performance of key external sector stability indicators.

[9] https://www.bloomberg.com/news/newsletters/2024-06-27/what-india-s-inclusion-in-jpmorgan-bond-index-means-for-its-economy-markets?sref=QF6yuiF0

[10] Indian fully accessible route (FAR) bonds are to be included in the Bloomberg Emerging Market (EM) Local Currency Government Index with an initial weightage of 10 per cent starting January 2025. It has also been announced that India is to be included in the US retirement fund's new Federal Retirement Thrift Investment Board (FRTIB) index, https://www.bloomberg.com/company/press/bloomberg-announces-india-far-bonds-inclusion-in-the-bloomberg-emerging-market-em-local-currency-government-index/

[11] Net FDI Inflows = Gross FDI Inflows-Repatriation/Disinvestment

Increase in Net FDI inflows in Q1 of FY25

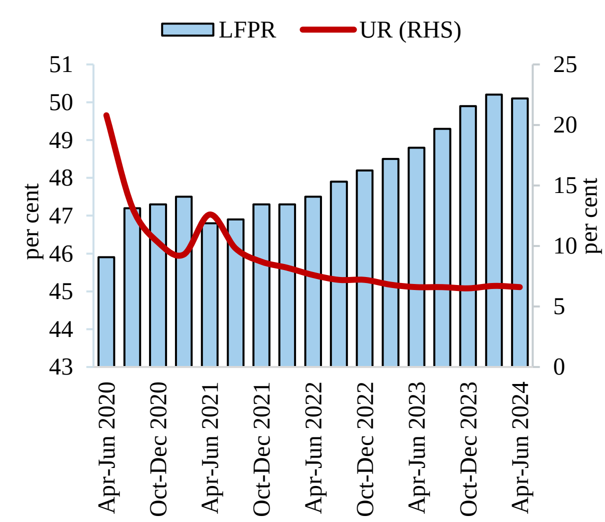


Source: RBI

Robust growth in the labour market

37. The labour market indicators exhibited positive signs in recent months, barring a couple of perception surveys by RBI showing weakening sentiments. According to the Periodic Labour Force Survey (PLFS) data for the April - June 2024 quarter, the urban labour force participation rate (LFPR) increased to 50.1 per cent from 48.4 per cent in the corresponding quarter last year, and the unemployment rate (UR) remained stable at 6.6 per cent. Signalling a rebound in formal job creation, the net payroll additions under EPFO witnessed an upswing in the quarter ending June 2024, with 51.0 lakh net payroll additions, of which 19.3 lakh were in June alone. A significant 59.1 per cent of new members added in June 2024 were in the 18-25 age group, indicating that most individuals joining the organized workforce are youth, mainly first-time job seekers.

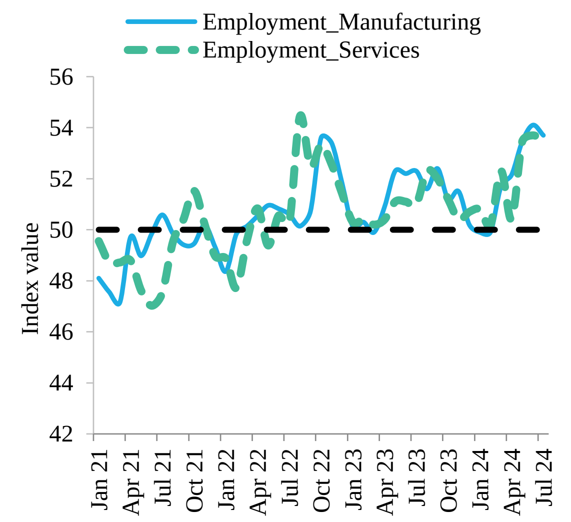
Improving urban labour market indicators



Source: Quarterly PLFS reports, MoSPI

Note: For current weekly status, 15 years and above

Expanding employment sub-indices in PMI

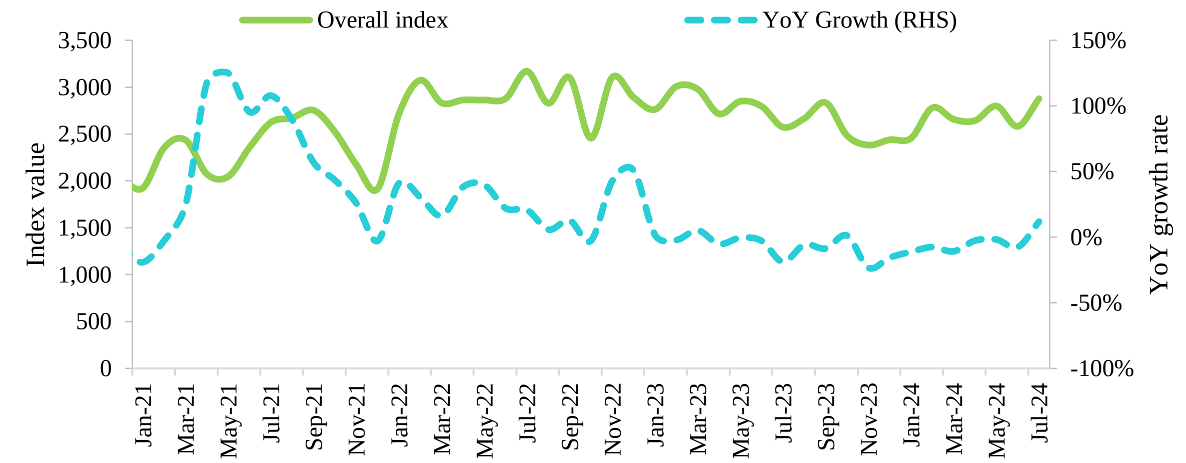


Source: HSBC Purchasing Managers' Index, S&P

38. The purchasing managers' employment sub-index stayed historically strong, continuing to be in the expansionary zone[12] for the fifth consecutive month in July, driven by buoyant demand conditions and sales volumes.

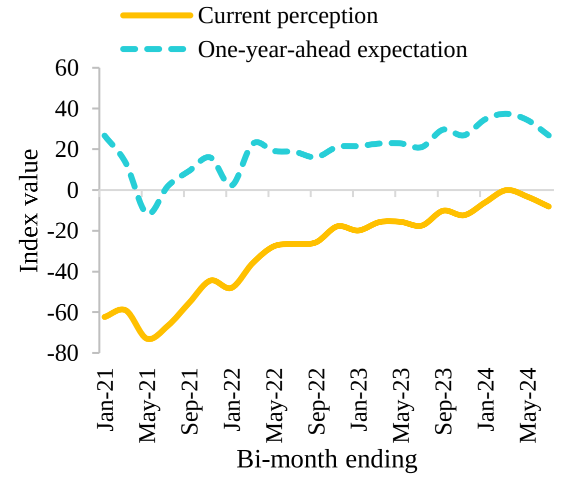
39. After contracting for nine months, the Naukri JobSpeak index registered an 11.8 per cent YoY growth in July, coupled with an 11.4 per cent MoM growth. While the index rise is partially attributable to the base effect of a drop in IT sector hiring in July 2023, it's attaining the highest value since March 2023 hints at the potential onset of an upturn in India's white-collar job market.

The Naukri Jobspeak Index is beginning to look up



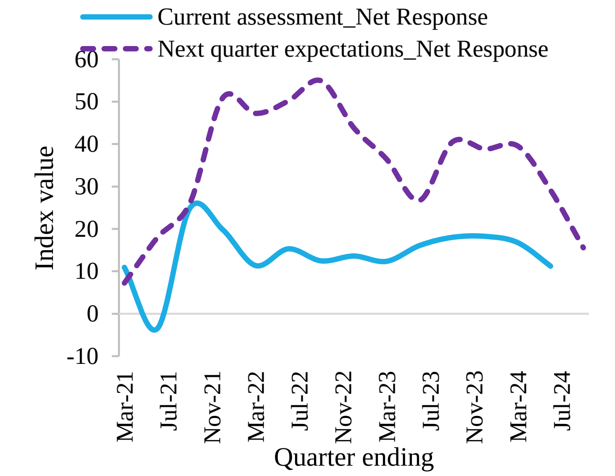
Source: Naukri Jobspeak Index

Urban Consumers' Perception of Employment weakened in June-July



Source: Consumer Confidence Survey, RBI

Manufacturers' Perception of Employment slid in June Quarter



Source: Industrial Outlook Survey, RBI

[12] The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are also seasonally adjusted.

40. However, the RBI's Consumer Confidence Survey[13] and Industrial Outlook Survey[14] paint a sobering picture of urban consumers' perception of employment conditions and manufacturers' hiring sentiments, both of which underwent a dip in recent rounds. This was in line with moderation in the overall indices, i.e., the consumer confidence index and business expectations index.

41. In this context, it is worth highlighting that Budget 2024-25 prioritised job creation through a bouquet of five schemes, as elaborated in the Box below.

Box 1: Package of PM's five schemes for Employment and Skilling

Prime Minister's package of 5 schemes and Initiatives for employment, skilling and other opportunities for 4.1 crore youth over a 5-year period was a highlight of the recently announced Budget 2024-25. The five schemes, listed as follows, are a stepping stone towards long-run quality job creation for a *Viksit Bharat*.

1. **Scheme A - for first-timers:** This initiative provides a one-month salary of up to ₹15,000 to be provided in 3 instalments to first-time employees, as registered in the EPFO. With a salary cap of ₹1 lakh per month, this scheme aims to support 210 lakh youth entering the workforce for the first time.
2. **Scheme B - Job Creation in Manufacturing:** It offers incentives related to EPFO contributions for both employees and employers during the first four years of employment. This scheme incentivises job creation in the manufacturing sector by targeting first-time employees.
3. **Scheme C - Support to employers:** Under the scheme, the Government would reimburse up to ₹3,000 per month for 2 years towards the EPFO contribution of employers for each additional employee. This is expected to benefit 30 lakh youth and additional employment across all sectors.
4. **New centrally sponsored scheme for Skilling**
    - 20 lakh youth to be skilled over a 5-year period.
    - 1,000 Industrial Training Institutes to be upgraded in hub and spoke arrangements.

    This is expected to boost the skilled human capital formation aiding quality employment generation.

[13] The survey collects current perceptions (vis-à-vis a year ago) and one year ahead expectations of households on general economic situation, employment scenario, overall price situation, own income and spending across 19 major cities. The latest round of the survey was conducted during July 2-11, 2024, covering 6,062 respondents.
[14] The survey encapsulates qualitative assessment of the business climate by Indian manufacturing companies for Q1: FY25 and their expectations for Q2:FY25 as well as outlook on select parameters for the subsequent two quarters. In all, 1,351 companies responded in this round of the survey, which was conducted during April-June 2024.

5. **New Scheme for Internship in 500 Top Companies** to 1 crore youth in 5 years. This program provides 12 months of real-life business exposure, with an internship allowance of ₹5,000 per month and a one-time assistance of ₹6,000. This scheme thus bridges the gap between academic knowledge and industry requirements and aligns with broader goals of improving employability, stimulating economic growth, and promoting sustainable development.

Outlook

42. On balance, India's economic momentum remains intact. Despite a somewhat erratic monsoon, reservoirs have been replenished. Manufacturing and services sectors are expanding, going by the Purchasing Managers' indices. Tax collections – especially indirect taxes, which reflect transactions – are growing healthily, and so is bank credit. Inflation is moderating, and exports of both goods and services are doing better than they did last year. Stock markets are holding on to their levels. Foreign direct investment is looking up as gross inflows are rising.

43. Amidst the above-mentioned favourable developments, consumer confidence in the current economic situation, employment, price level, and income has declined, as reflected in the Current Situation Index of the RBI's Consumer Confidence Survey. Households' optimism about economic conditions for the year ahead has declined from the previous survey round. Further, lower optimism on the general economic situation, employment and prices led to a moderation in the future expectations index of the Consumer Confidence Survey[15] in July 2024. The industrial outlook survey of the manufacturing sector, also conducted by the central bank, showed a decline in both the current assessment and the expectations indices of business sentiment in August. Production, Order books, employment and export sentiments moderated. Both the consumer and the industrial outlook surveys need to be monitored for future trends. As of now, the projection of real GDP growth of 6.5-7.0 per cent for FY25, made in the Economic Survey for 2023-24, seems appropriate.

For feedback and queries, one may write to: mer-dea@gov.in

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[15] CSI and FEI are compiled on the basis of net responses on the economic situation, income, spending, employment and the price level for the current period (as compared with one year ago) and a year ahead, respectively. CSI and FEI = 100 + Average of Net Responses of the above parameters

Performance of High-Frequency Indicators

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2022-23	2023-24	2024-25	2022-23	2023-24	2024-25
Agriculture								
Fertiliser Sales	Mn Tonnes	Apr	4.4	3.7	3.7	66.7	-15.3	-1.8
Domestic Tractor Sales	Lakh	Apr-July	3.2	3.2	3.2	8.9	-0.5	0.7
Foodgrain Production (Kharif +Rabi)	Mn Tonnes	Actual, 3rd AE	329.7	328.9		4.5	-0.3	
Reservoir Level	Bn Cu. Metres	15-August	135	111.3	124	28.8	-17.6	11.4
Wheat Procurement (RMS)	LMT	15-August	187.5	260.7	265.9		39.1	2.0
Rice Procurement (KMS)	LMT	21-May	491	476		1.8	-3.1	-
Rainfall	% of LPA	19 Aug	108.0	93.7	103.4	18.8	-13.3	10.4
Credit to Agriculture and allied activities	₹ Lakh crore	June	15.4	18.4	21.6	13.1	19.5	17.4
Industry								
IIP	Index	Apr-Jun	136.9	143.4	150.8	12.8	4.8	5.1
8-Core Industries	Index	Apr-Jun	146	154.8	163.6	13.9	6.0	5.7
Domestic Auto sales	Lakh	Apr-Jul	62.5	69.7	80.1	37.5	11.5	15.0
PMI Manufacturing	Index	Apr-Jul	54.9	57.8	58.2	4.7	5.4	0.6
Power consumption	Billion kWh	Apr-Jul	532.1	554.8	602.2	14.3	4.3	8.5
Natural gas production	Bn Cu. Metres	Apr-Jun	8.6	8.6	9.1	4.7	0.1	5.7
Cement production	Index	Apr-Jun	171.2	192.9	193.5	17.2	12.7	0.3
Steel consumption	Mn Tonnes	Apr-Jul	36.7	41.7	47.8	11.1	13.6	14.7

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2022-23	2023-24	2024-25	2022-23	2023-24	2024-25
Inflation								
CPI-C	Index	Apr-Jul	172.0	181.1	189.4	7.1	5.3	4.6
WPI	Index	Apr-Jul	154.2	150.4	153.9	15.6	-2.5	2.3
CFPI	Index	Apr-Jul	172.3	182.2	196.7	7.7	5.7	8.0
CPI-Core	Index	Apr-Jul	169.9	178.6	184.3	6.2	5.1	3.2
Services								
Domestic Air Passenger Traffic	Lakh	Apr-June	644.4	767.3	810	206.2	19.1	5.6
Port Cargo Traffic	Million tonnes	Apr-Jun	196.9	200.5	208.4	9.3	1.9	3.9
PMI Services	Index	Apr-Jul	57.9	61	60.5	23.8	5.4	-0.9
Fuel Consumption	Million tonnes	Ap-Jun	73.1	77.2	80.9	16.2	5.6	4.8
UPI (Value)	₹ Lakh crore	Apr-Jul	9.8	59.05	80.81	91.9	44.0	36.8
UPI (Volume)	Crore	Apr-Jul	2468.6	3761.3	5566.1	119.7	52.4	48.0
E-Way Bill Volume	Crore	Apr-Jul	29.9	34.7	40.5	37.4	15.9	16.8
Fiscal Indicators								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr-Jun	6.5	6.7	8.3	22.4	3.3	23.7
Revenue Expenditure	₹ Lakh crore	Apr-Jun	7.7	7.7	7.9	8.8	-0.1	2.2
Capital Expenditure	₹ Lakh crore	Apr-Jun	1.8	2.8	1.8	57.0	59.1	-35.0
Fiscal Deficit	₹ Lakh crore	Apr-Jun	3.5	4.5	1.4	28.3	28.3	-69.9
Revenue Deficit	₹ Lakh crore	Apr-Jun	2.0	1.8	-0.41	20.4	-10.4	-122.2
Primary Deficit	₹ Lakh crore	Apr-Jun	1.2	2.1	-1.3	37.0	68.5	-161.8
GST Collection	₹ Lakh crore	Apr-Jul	6	6.7	7.4	32.8	11.4	10.2

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2022-23	2023-24	2024-25	2022-23	2023-24	2024-25
External Sector								
Merchandise exports	USD Billion	Apr-Jul	159.3	138.4	144.1	21.6	-13.1	4.1
Non-oil exports	USD Billion	Apr-Jul	124.2	112.6	118.2	10.6	-9.3	4.9
Merchandise imports	USD Billion	Apr-Jul	247.3	213.5	229.7	42.9	-13.7	7.6
Non-oil, non-gold/silver imports	USD Billion	Apr-Jul	160.3	146.5	151	36.2	-8.6	3.1
Net FDI	USD Billion	Apr-Jun	16.3	7.4	10.5	-5.7	-54.8	42.9
Exchange Rate	INR/USD	Apr-Jul	77.8	82.2	83.5	5.2	5.7	1.6
Foreign Exchange Reserves	USD Billion	9th Aug	570.7	602.2	670.1	-8.2	5.5	11.3
Import Cover	Months	Jul	10	11	11.6	-	-	-
Monetary and Financial								
Total Bank Credit	₹ Lakh crore	26th July	123.7	147.9	168.1	13.4	19.5	13.7
Non-Food Credit	₹ Lakh crore	26th July	123.4	141.6	162.9	13.9	14.7	15.1
10-Year Bond Yields	Per cent	Apr-19 Aug	7.3	7.1	7.0	20.6	-3.1	-1.0
Repo Rate	Per cent	20th Aug	4.9	6.5	6.5	0.9	1.6	0.0
Currency in Circulation	₹ Lakh crore	9th Aug	32.1	33.3	35.3	8.8	3.7	5.7
M0	₹ Lakh crore	9th Aug	41.4	43.8	46.5	11.3	5.9	6.2
Employment								
Net payroll additions under EPFO	Lakh	Apr-Jun	35	32.7	51	75.9	-6.5	55.9
Number of persons demanded employment under MGNREGA	Crore	Apr-Jul	3.29	3.18	3.02	-13.1	2.0	-15.5
Urban Unemployment Rate	Per cent	Apr-Jun	7.6	6.6	6.6	-5.0	-1.0	0.0
Subscriber Additions: National Pension Scheme	Lakh	Apr-May	1.3	1.3	1.9	17.9	-0.2	51.5